

*Washington
State Auditor's Office
Annual Report on Fraud*

1995



Washington
State Auditor
Brian Sonntag



State Auditor's Office

1995 Annual Report on Fraud

Introduction

After setting records in 1993 and 1994, the rate of losses due to fraud in state and local government declined in 1995. The number, however, still was high. Taxpayers lost \$689,080 last year as a result of government fraud. While the total dollars lost was lower than the previous two years, the number of cases in 1995 was 50 percent more than the annual average for the past nine years.

These statistics for 1995 reflect the continued importance of detecting fraud early. Multiple-year frauds -- those that occur over a period longer than one year -- account for the majority of cases. It is multiple year frauds that drove the loss amount to record highs in 1993 and 1994. Therefore, they represent an area of large concern to the State Auditor's Office, to state and local government management, and to taxpayers.

The table below shows the number of cases reported and the dollar amount of fraud losses for the last nine years.

Calendar Year Ended	Number of Cases	Total Fraud Losses
12/31/87	32	\$ 388,936
12/31/88	26	\$ 451,122
12/31/89	31	\$ 358,654
12/31/90	15	\$ 120,121
12/31/91	15	\$ 264,027
12/31/92	20	\$ 226,629
12/31/93	18	\$ 642,439
12/31/94	30	\$ 903,304
12/31/95	37	\$ 689,080
9 - Year Average	25	\$ 449,368

The trends revealed in the fraud statistics are significant and are having a direct impact on the way the State Auditor's Office does business.

The amount of government fraud Washington has experienced reflects both on the state of the economy and the financial pressures employees face in their everyday lives. Fraud perpetrators last year included a cashier, a community college instructor, a fire chief and a superintendent of an educational service district (see appendix). This range of positions shows that financial strain can develop anywhere along the income scale and is in no way limited to an employee's position or title.

The root cause of fraud in an organization is an inappropriate segregation of duties for a key employee in either the receipting or disbursing functions. Because this one internal control is at the heart of every fraud existing today, the Office audits with the intent that identifying this weakness must be a key objective of all engagements.

Employees simply ignore or compromise internal controls to perpetrate their crimes. Therefore, we continue to emphasize that management needs to monitor internal control structures to determine if they operate as designed. This critically important step serves as both a detection mechanism for management and a deterrent mechanism against unauthorized or irregular activity by employees.

Stepping up Prevention Efforts

The numbers are too significant to ignore. And the State Auditor's Office continues to make it a priority to find new ways to tackle the problem of state and local government fraud. New in 1995, the Office established the position of a full-time fraud investigator to concentrate on the detection, prevention and investigation of fraud. Fraud Specialist Joe Dervaes is a Certified Fraud Examiner and Certified Internal Auditor with more than 30 years of investigative experience. In March 1996, he received the Distinguished Achievement Award from the Association of Certified Fraud Examiners, one of 18 such awards given nationally for excellence in fraud investigations for 1995.

Dervaes investigates all major frauds and works directly with other Assistant State Auditors lending his experience and expertise. A major portion of his work is dedicated to finding a solution to multiple year frauds that represent the majority of cases investigated and cost taxpayers thousands of dollars each year.

Fraud Size

As found in previous years, excluding the three largest multiple-year cases, the average amount of fraud remains well under \$10,000. A fraud detected during a routine regular audit is usually for a small amount. The average loss for 1995 was \$7,220. As the following table indicates, 62 percent of all fraud cases detected involved amounts less than \$5,000.

Range of Dollar Losses	Percent of Reports in Range
1-5,000	62%
5,001-15,000	14%
15,001-40,000	14%

Over 40,000

10%

Comparative Statistics

The following table summarizes fraud audit reports issued during 1995 by type of entity. See the appendix of fraud cases for additional details.

Entity Type	Number of Cases	Amount of Losses
State Agencies		
Universities	8	\$ 123,039
Community Colleges	4	\$ 12,082
Dept. of Social and Health Services	2	\$ 95,613
Total State Agencies	14	\$ 230,734
Local Governments		
Counties	3	\$ 12,907
Cities and Towns	8	\$ 402,876
Superior, District, and Municipal Courts	1	\$ 891
School & Educational Service Districts	5	\$ 11,456
Fire Protection Districts	1	\$ 4,085
Miscellaneous Governments	5	\$ 26,131
Total Local Governments	23	\$ 458,346
Grand Total	37	\$ 689,080

Local governments largely have a greater incidence of fraud because there are far more of them than there are state agencies. Washington has approximately 2,400 local governments compared to approximately 170 state agencies. In addition, small local governments can have staffing limitations which historically have contributed to a lack of checks and balances, thus exposing an entity to a greater possibility of fraud.

With more units of local government, there are also more people involved in the cash receipting and cash disbursing functions than in state agencies. There are literally thousands of employees working in these functions every day. However, only a very small number of these

individuals embezzle funds from their employer.

Fraud Detection

While the State Auditor's Office continually looks to uncover fraud through the audit process, the public and state employees are equally important partners in fraud detection. Taxpayer and whistleblower reports of fraud increased significantly in 1995, reporting the second highest number of frauds behind government managers. Growing public interest in government accountability contributes to this participation. The following table shows who identified frauds during 1995.

Detector	Number of Frauds	Amount of Fraud	Percent of Total Dollars	Percent of Total Frauds
Taxpayers and Whistleblowers	10	\$ 161,879	23%	27%
Entity Managers	20	\$ 419,726	61%	54%
Internal Auditors	1	\$ 26,145	4%	3%
State Auditors	6	\$ 81,330	12%	16%
TOTALS	37	\$ 689,080	100%	100%

International statistics reveal that 19 percent of all fraud cases are detected by internal and external auditors combined, matching exactly the rate of detection in this state during 1995. The average detection rate by auditors in Washington over the past nine years has been 27 percent, with 21 percent by State Auditor's Office examiners alone. This record emphasizes the outstanding results achieved from our in-house fraud audit training program.

The State Auditor's Office fraud awareness seminars for state and local government managers have had a noticeable impact. Government managers discovered over half of the fraud investigated last year. The Fraud Specialist trained approximately 1,750 financial managers during fiscal year 1995. This training effort involved approximately 7,600 hours of participation through a wide variety of forums. Entity managers are in the position to best prevent and detect fraud on a daily basis. The number of identified frauds last year is testimony to the success of our training efforts.

Continuing Our Efforts

While encouraging, the reduction in government fraud losses for 1995 does not provide substantive assurance that the problem of fraud is going to further decrease in the coming years. With the number of reported cases rising, we are continuing our emphasis on training and detection in order reduce loss of public funds in the future. Government fraud can never be completely eliminated, but the State Auditor's Office, in partnership with citizens and government managers, can make it as difficult as possible for fraud to occur.

Attachment

1995 List of Fraud Reports

**WASHINGTON STATE AUDITOR'S OFFICE
AUDIT REPORTS DISCLOSING FRAUD
JANUARY 1, 1995 THROUGH DECEMBER 31, 1995**

Entity Name	Audit No.	Report Date	Fraud Amount	Detection Method	Audit Team	Fraud Area
Thurston Co. (Solid Waste Dept)	56304	01-06-95	\$ 4,038	4	Olympia	A landfill cashier failed to make bank deposits for three days of cash receipt activity and then fled prosecution.
Toutle Lake School Dist. No. 130	56394	01-06-95	\$ 524	4	Vancouver	ASB football gate receipts and revenue from the sale of a family pass were missing. Ticket sales reports were falsified by an employee. Passes were not prenumbered. Check for cash substitution scheme.
Skamania County (Parks and Rec. Dept.)	56505	01-31-95	\$ 5,737	5	Vancouver	No fixed responsibility. Swimming pool passes were not prenumbered. Pool revenue and room rental fees collected were not deposited. Daily tally sheets were falsified. Check for cash substitution scheme.
City of Ocean Shores (Public Works) - Water System	56473	01-31-95	\$ 2,067	4	Olympia	Water plant operator connected his residence to the city water system without notifying the water department and did not pay for the receipt of water utility services (hookup fee, water meter, water fee, and water user fees).
City of Spokane (Solid Waste Dept)	56504	02-10-95	\$ 3,130	1/3	Spokane	Waste to energy cash receipt transactions were recorded in computer cash register system as compost (no fee) rather than regular (full fee). Funds were then stolen. The city installed signs reminding customers to get a receipt. A customer did not get a receipt, came back to get one, and received a suspicious receipt from the cashier. The customer then contacted the city.
City of West Richland	56412	02-24-95	\$ 0	4	Tri-cities	A maintenance supervisor directed prisoners working for the city to work on his own personal jobs, including work on an irrigation system, a fork lift, and a fuel tank. This was a breach of contract with the correctional facility for improper use of the prisoners.
City of Oakville (Municipal Court)	56472	03-10-95	\$ 891	4	Olympia	A court clerk stole revenue from fines by recording transactions on rediform receipts that were not subsequently recorded on the transaction journal. Customer payments were also recorded in the accounting system but never deposited (shortages).

Method of Detection Category:

1 - Taxpayer/Whistleblower 2 - Police Report 3 - Entity Internal Audit 4 - Entity Management 5 - State Audit

**WASHINGTON STATE AUDITOR'S OFFICE
AUDIT REPORTS DISCLOSING FRAUD
JANUARY 1, 1995 THROUGH DECEMBER 31, 1995**

City of Seattle (Animal Control)	56598	03-17-95	\$ 65,946	1	Seattle	A bank teller reported to police that a city employee was routinely exchanging small denomination bills for large denomination bills (money laundering). The pet license supervisor confessed to stealing \$30,000 a year for 6 years. Recorded cash receipts were stolen. The police processed a controlled batch of funds through him which came up short when he made the deposit. Neither the cash for deposit nor the daily reports were reconciled to the daily cash register tapes by an independent party. Accounting records were insufficient to prove the total amount of the loss.
Benton Conservation Dist. No. 32	56613	03-24-95	\$ 6,241	4	Pullman	A district manager cashed checks issued to himself from the checking account. The check authorization signatures were forged and the check register was falsified.
University of Washington Student Accounts & Cashiers	5537	04-12-95	\$ 6,305	4/3	HE	No fixed responsibility. Mysterious disappearance of one bank deposit (cash). Loss not noticed by management for over two months. The deposit report and bank deposit slip were destroyed.
UW - Payroll Office	"	"	\$ 5,000	4	HE	A temporary employee (minor) made two payroll checks payable to a friend and falsified the approval signature to get the checks signed and issued.
UW -Experimental Education Unit	"	"	\$ 2,007	1/5	HE	A transition specialist conducted an unapproved private consulting business during normal business hours. He used university facilities, editing services, and telephones in the business operation, and failed to report or falsely reported his annual and sick leave.
UW - Regional Primate Research Center	5537	04-12-95	\$ 38,352	4/3	HE	A fiscal specialist issued checks to "cash" or to the medical center from the petty cash bank account and cashed them for personal use. Fictitious receipts and vouchers were submitted to obtain reimbursement for the amount of funds stolen from the petty cash fund by using duplicate copies of receipts and receipts for non-university purchases. She also reimbursed the fund for more than actually paid out to employees; falsified petty cash vouchers, travel expense vouchers, and blood donor receipts; and forged other employees signatures on these documents. She also took "cash back" from three deposits and cashed one petty cash fund reimbursement check. There was no independent verification or monitoring of petty cash account activity by management officials.

Method of Detection Category:

1 - Taxpayer/Whistleblower 2 - Police Report 3 - Entity Internal Audit 4 - Entity Management 5 - State Audit

**WASHINGTON STATE AUDITOR'S OFFICE
AUDIT REPORTS DISCLOSING FRAUD
JANUARY 1, 1995 THROUGH DECEMBER 31, 1995**

UW - Regional Primate Research Center	“	“	\$ 51,455	5	HE	An administrator directed the fiscal specialist to falsify payroll records so three students would receive a sufficient amount of funds for their tuition. The students performed no work.
UW - Regional Primate Research Center	“	“	\$ 17,769	5	HE	The director told an employee to falsify payroll and travel expense records to compensate three students for moving costs and a fourth student for tuition. Payments for work prior to the student's actual start dates and payment for a non-existent travel event were used.
UW - Regional Primate Research Center	“	“	\$ 2,151	5	HE	The director inappropriately used his authority to purchase prescription drugs and diverted those drugs to another individual for human use rather than for primate research. The individual reimbursed the department in cash. The money was used to pay a student's tuition (unallowable).
UW - Regional Primate Research Center	“	“	\$ 0	1/5	HE	An associate director had a conflict of interest because he and his wife owned a one-third interest in the outstanding stock of a private research company involved in work similar to the department. This interest was sold to another department employee and an ex-department employee. The employee worked for the company which did business with the department and used its equipment. Outside employment forms (disclosure) were not prepared and approved for this work.
City of Tenino (Municipal Court)	56671	04-28-95	\$ 2,641	4	Olympia	No fixed responsibility. A court employee stole recorded cash receipts from defendant payments (no deposits). Deposits were not made daily, and court depository and trust fund bank accounts were not reconciled timely or by an independent party.
Housing Authority of Grays Harbor County	56708	05-05-95	\$ 0	1	Olympia	U.S. HUD IG Investigation. A housing authority employee falsified forms to qualify her children for a veterans housing preference thereby obtaining subsidized housing earlier than normal. No one independently verified the accuracy of tenant applications and eligibility documents.

Method of Detection Category:

1 - Taxpayer/Whistleblower 2 - Police Report 3 - Entity Internal Audit 4 - Entity Management 5 - State Audit

**WASHINGTON STATE AUDITOR'S OFFICE
AUDIT REPORTS DISCLOSING FRAUD
JANUARY 1, 1995 THROUGH DECEMBER 31, 1995**

Highline Community College	5553	05-05-95	\$ 0	4	HE	A food service manager (union cafe) provided food, supplies, and other resources under her direct control for the private benefit of other organizations. There were no written agreements for contractual arrangements for these unauthorized activities. Accounting records were inadequate to determine whether the college was properly reimbursed. She accepted trade show gifts from food service vendors doing business with the college. Food items were purchased from vendors through the college accounting system and sold at cost to herself, staff members, and a private citizen (lending of credit).
Walla Walla Community College	5554	05-05-95	\$ 7,834	4	Tri-Cities	No fixed responsibility. Funds were stolen from the business office vault including change funds, petty cash funds, and bank deposits from college business activity. The vault was left open over the weekend. Anyone with access to the building had access to the business office because it is open and unsecured within a large administration building. There was no alarm system.
Olympic College	5552	05-19-95	\$ 4,018	5	Port Orchard	No fixed responsibility. Recorded cash receipts from GED test fees were stolen. Many employees had access to the funds in a safe. The safe combination was written down in the office. Of all funds receipted, 42 percent were stolen, including 85 percent of all currency received. The employee with primary responsibility was found not guilty by trial.
City of Tacoma (Department of Public Util. -Light Div.)	56829	06-09-95	\$ 5,641	4/3	Tacoma	An engineer processed false travel claims for reimbursement of lodging expenses which he did not pay, but which he also approved for payment by the consultant who did pay the bills, for vicinity travel on dates when he was actually on travel status in another city, and for vicinity travel for trips that were not taken. The employee committed perjury (signature) and falsified travel claims.
City of Bellingham (Cemetery)	56831	06-16-95	\$ 26,145	3/5	Bellingham	Independent auditor found that the cemetery manager had over-billed the city for commissions on lot sales, monuments, and memorials. Computer software was modified to obtain unauthorized fees. The manager committed perjury (certifying signature). Contract was not independently monitored by management officials.

Method of Detection Category:

1 - Taxpayer/Whistleblower 2 - Police Report 3 - Entity Internal Audit 4 - Entity Management 5 - State Audit

**WASHINGTON STATE AUDITOR'S OFFICE
AUDIT REPORTS DISCLOSING FRAUD
JANUARY 1, 1995 THROUGH DECEMBER 31, 1995**

Shoreline Community College	5558	06-16-95	\$ 230	1/5	HE	A photography department instructor convinced five current and former students to submit false travel claims for reimbursement of expenses which were not incurred. The funds were to be used to pay for funeral expenses of a former photography department student.
City of Seattle (Solid Waste Utility- Transfer Stations)	56839	06-16-95	\$ 297,306	4/3	Seattle	The city hired a statistician for analysis of landfill cash register tapes after an employee informed them of fraud. Cashiers issued prenumbered computer-generated receipts to customers, and hit "control/alt/delete" keys which deleted the transaction from the buffer zone before it was transmitted to the central file server. Cash was then stolen. The system then issued the same cash receipt number to another customer. Collusion by five cashiers.
Kittitas County Hospital Dist. No. 2	56866	06-30-95	\$ 200	5	Yakima	Hospital administrator sold a sink and stole the money via a check for cash substitution scheme (unauthorized and unrecorded transaction). When detected, he cashed the check and placed the money in the petty cash fund and explained that he was concealing an earlier mysterious disappearance loss.
Educational Services Dist. No 123	56962	08-11-95	\$ 3,720	1/5	Tri-Cities	The superintendent falsified supporting documents for two disbursements to get his personal vehicles repaired at district expense. This is an interim report for a much larger fraud case (1996).
Dept. Of Social and Health Services	5563	09-01-95	\$ 80,261	1/3	SS	A bank employee reported irregular banking activity to DSHS. An employee initiated and entered six fictitious disbursement transactions into the vendor payment system. There were no source documents authorizing these payments. The employee's name was spelled differently to avoid computer edits and all warrants were issued in amounts within the employee's approval authority. Warrants were mailed to the employee's home address. Detail warrant issuance reports were destroyed.
Ocosta School District No. 172	57006	09-08-95	\$ 0	4	Olympia	Transportation supervisor falsified school bus route logs (pervasive throughout the system) to inflate bus ridership counts and obtain additional transportation funds from SPI.
Seattle School District No. 1	57013	10-13-95	\$ 6,612	4	King County	No fixed responsibility. Cash receipts were missing from many food service (deli) deposits. Loss was not promptly detected because no one independent of the function monitored the deli's operations.

Method of Detection Category:

1 - Taxpayer/Whistleblower 2 - Police Report 3 - Entity Internal Audit 4 - Entity Management 5 - State Audit

**WASHINGTON STATE AUDITOR'S OFFICE
AUDIT REPORTS DISCLOSING FRAUD
JANUARY 1, 1995 THROUGH DECEMBER 31, 1995**

Irvin Water District No. 6	57151	11-09-95	\$ 2,500	1/5	Spokane	Office manager was paid for 144 hours which was not worked (documented by management monitoring). After overpaying insurance premiums, the manager directed the company to apply the excess to a policy for her daughter. District meeting minutes were falsified.
Mason County Fire Dist. No. 9	57161	11-17-95	\$ 4,085	1/3	Olympia	Fire chief arrested for trafficking in stolen federal, state, and county property (garage sales). His wife, the district secretary, withheld volunteer personal pension payment funds from bank deposits, falsified disbursement vouchers, and forged district commissioner signatures to purchase items for personal use.
Thurston County (Dist. Court)	57141	12-01-95	\$ 3,132	4	Olympia	No fixed responsibility. Theft of cash receipts (internally), with \$1,000 returned anonymously. Deposits were not reconciled properly or made intact daily, and there were multiple cashiers working from a single cash drawer.
Dept. of Social and Health Services	5590	12-22-95	\$ 15,352	4/3	SS	A community relations employee obtained, prepared, and forged signatures on field orders to purchase computer and electronic equipment, office supplies, children's clothing, and other miscellaneous items for personal use. She used the agency charge card to rent vehicles for personal use, prepared travel vouchers with forged approval signatures for fictitious travel, used the agency credit card for non-state expenses, and prepared a state invoice voucher and forged a supervisory approval to obtain paper goods which were delivered to the employee's home address. Federal funds were involved in this case.
Richland School District No. 400	57235	12-22-95	\$ 600	4	Tri-Cities	An auditorium manager used her position and district facilities, equipment, and personnel for her own personal benefit. The employee's private business was similar to her district position. Thus, private and public business was commingled during the normal duty day.

Method of Detection Category:

1 - Taxpayer/Whistleblower 2 - Police Report 3 - Entity Internal Audit 4 - Entity Management 5 - State Audit

**WASHINGTON STATE AUDITOR'S OFFICE
AUDIT REPORTS DISCLOSING FRAUD
JANUARY 1, 1995 THROUGH DECEMBER 31, 1995**

Tacoma Metropolitan Park District	57270	12-29-95	\$ 17,190	4	Tacoma	A payroll officer falsified accounting records to manipulate payroll records for the benefit of herself and others. A friend was overpaid by changing the rate per hour of work, and paying for vacation and military leave for which the individual was not entitled. Several other employees paid a medical aid rate less than authorized by law, and she manipulated her own pay by reducing the federal withholding and state retirement amounts. The employee added 8 hours of vacation pay to her check after her time sheet was approved by a supervisor. This alteration was detected and led to her dismissal.
---	-------	----------	-----------	---	--------	---

Total 1995 Audit Reports (30) -- fraud cases (37)

<u>Government Type</u>	<u>Reports</u>	<u>Cases</u>	<u>Amount</u>
State Agencies	7	14	\$ 230,734
Local Governments	<u>23</u>	<u>23</u>	<u>458,346</u>
Total 1995 Fraud Audit Reports	30	37	\$ 689,080